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# Soviet Oil Trade in 1982-83

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An Intelligence Assessment

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*June 1984*

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# Soviet Oil Trade in 1982-83 [redacted]

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**An Intelligence Assessment**

This paper was prepared by [redacted] Office of Soviet Analysis. Comments and queries are welcome and may be directed to the Chief, Soviet Economy Division, SOVA, [redacted]

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# Soviet Oil Trade in 1982-83 [redacted]

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**Summary**

*Information available as of 15 April 1984 was used in this report.*

Despite soft world oil prices and sluggish domestic production, the USSR increased exports of oil for hard currency during the 1982-83 period, mainly by cutting deliveries to Eastern Europe and increasing reexports of OPEC oil. As a result, Soviet oil revenues reached a record $14.9 billion in 1982 and may have even surpassed this level in 1983.

Several developments influenced Moscow's decision to increase oil exports for hard currency. Soviet net debt had increased by more than $3 billion in 1981 as a result of rising agricultural imports and weakening oil prices. Also, after the poor harvest in 1981, the USSR needed large revenues to pay for additional imports of grain and other agricultural goods in 1982. The stepped-up oil exports helped trim Moscow's debt by more than $2 billion, to $10.1 billion by the end of 1982. Although this eased the pressure to earn even larger amounts of hard currency, Moscow increased its volume of hard currency oil exports in 1983 to compensate for lower prices.

After years of supplying Eastern Europe with rising amounts of oil (which peaked at 1.6 million barrels per day during 1980-81), Moscow cut deliveries in 1982 by 131,000 b/d. This facilitated a $1.5 billion increase in oil sales to hard currency customers. The USSR further boosted its 1982 earnings by reexporting 176,000 b/d of oil received from Libya and the Middle East as payment for earlier deliveries of Soviet arms. In 1983 the USSR probably did not cut East European deliveries further, but it increased reexports of OPEC oil to 233,000 b/d.

The USSR will find it increasingly difficult, however, to maintain or increase oil exports to hard currency countries while satisfying its own needs and those of its CEMA clients and other soft currency customers. We believe domestic production is stagnating and may soon decline. Any substantial diversion of oil from domestic use would affect economic performance—an unacceptable consequence, particularly when the Soviets are trying to sustain an improvement in economic growth. We believe that, although the Soviets may cut oil exports to Eastern Europe gradually, they probably would be unwilling to risk the economic and political repercussions of more than marginal cuts.

In the long term, the Soviets probably cannot count on reexports of bartered OPEC oil. If world oil prices rise, OPEC countries probably could obtain better trade terms by eliminating the middleman and selling their oil in world markets and paying off their debts to the Soviets in cash. Moscow probably would consider making only marginal cuts in exports of oil to non-Communist soft currency countries like Finland or India and to key Communist clients such as Cuba. We believe that none of these marginal sources will prevent a long-term decline in the availability of Soviet oil for hard currency sales.

## Contents

25X1

# Soviet Oil Trade in 1982-83

25X1

## Introduction

The USSR is the world's leading petroleum producer and is second only to Saudi Arabia as an oil exporter. More than one-third of Soviet oil exports go to hard currency markets, tying the USSR's hard currency balance of payments closely to the international oil market.[1] About one-half go to CEMA countries, which depend on the USSR for most of their oil supplies. This assessment examines developments in Soviet oil trade during the 1982-83 period and discusses the options to maintain hard currency oil exports despite increasing production problems.

## The Importance of Oil in Foreign Trade

Sales of oil and oil products have been the USSR's leading source of export revenues since the early 1970s, increasing from one-tenth to more than one-third of total merchandise exports during the decade. Oil sales to hard currency customers accounted for an even larger share of hard currency earnings from merchandise exports, growing from nearly one-fifth to more than one-half during the same period (see table 1). The fifteenfold jump in world oil prices provided a large windfall to Soviet hard currency earnings. Although the volume of oil sold for hard currency doubled from 1970 to 1982, its value rose from $430 million to nearly $15 billion.

The volume of Soviet oil exports to Communist countries generally has been 1.5 to 2 times that to hard currency countries. Because the USSR provides oil to its client states at concessionary prices, however, it earns roughly equal amounts from sales to Communist countries and hard currency customers.

In 1982 the USSR produced 12.25 million barrels per day of oil, only 75,000 b/d more than in 1981, but total oil exports increased by 165,000 b/d. Exports to hard currency countries increased 36 percent, while deliveries to Communist countries fell by nearly 9 percent. In contrast, deliveries to hard currency countries fell an estimated 5.7 percent in 1981, while those to Communist countries were maintained at about 2 million b/d (see table 2). 25X1

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Total exports of Soviet oil in 1983 reached an estimated 3.59 million b/d, 201,000 b/d more than in 1982. (Domestic production increased only about 70,000 b/d.) Nearly 70 percent of the increase in exports

***Selling Oil for Hard Currency***

*Moscow's trade with hard currency customers is conducted on a commercial basis and reflects supply and demand in international markets. Because the USSR is a relatively small oil supplier to Western countries, it must match OPEC's prices to remain competitive. As a result, it reaps substantial profits when OPEC prices are high and suffers when the market weakens and prices fall (assuming the same volume of oil exports). The Soviets do not appear to manipulate prices or quantities of oil exports for political leverage.* 25X1

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*The USSR sells oil to the West mainly under long-term annual contracts between Western firms and Soyuznefteeksport, the Soviet foreign trade organization authorized to import and export oil. This organization, headquartered in Moscow, conducts its trade through subsidiaries in the more important West European countries. Moscow also sells a small amount of oil on the spot market, primarily to benefit from short-term fluctuations in the market price. (The USSR frequently adjusts long-term contract prices to market conditions.) Because of the recent soft oil market, the Soviets have increased the share of oil being sold in the spot market and in short-term contracts.* 25X1

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[1] In 1982-83 oil exports accounted for about 56 percent of Moscow's hard currency earnings from merchandise trade and roughly 40 percent of all its foreign exchange earnings. Merchandise trade excludes sales of major weapon systems to less developed countries.

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**Table 1**
**USSR: Exports to Hard Currency Countries, 1970-83**

*Million US $*
(except where noted)

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total merchandise exports** [a] | **2,424** | **2,727** | **2,924** | **5,009** | **7,869** | **8,280** | **10,225** | **11,863** | **13,336** | **19,417** | **23,584** | **23,778** | **26,552** | **26,382** |
| Crude oil and oil products | 430 | 608 | 600 | 1,304 | 2,741 | 3,391 | 4,748 | 5,583 | 5,710 | 9,585 | 12,295 | 11,945 | 14,912 | 15,000 [b] |
| Crude oil and oil products as a share of merchandise exports *(percent)* | 18 | 22 | 21 | 26 | 35 | 41 | 46 | 47 | 43 | 49 | 52 | 50 | 56 | 57 |

[a] Excludes sales of major weapon systems to less developed countries.
[b] Preliminary.

[redacted] 25X1

went to hard currency countries; and the balance went to India, Yugoslavia, and Finland in the form of reexported oil from Libya and the Middle East. Deliveries to Communist countries (excluding Yugoslavia) probably were about the same as in 1982. [redacted]

**Hard Currency Sales**

***1982.*** An effort to increase oil sales to hard currency customers began in late 1981 and continued throughout 1982-83. Several developments influenced this decision. In 1981 the Soviet hard currency trade imbalance increased sharply; it was 60 percent higher than in 1980 and the largest since 1976. As a consequence, the USSR's net debt rose by $3.3 billion. Also, after the poor harvest in 1981, Moscow needed large amounts of hard currency to pay for imports of grain, meat, and other agricultural goods. [redacted]

In 1982 oil deliveries to hard currency countries reached an estimated 1.24 million b/d, some 330,000 b/d above the 1981 level. These exports accounted for nearly 37 percent of total Soviet oil shipments and earned a record $14.9 billion. Deliveries to OECD countries for hard currency [2] reached 1.17 million b/d, 94 percent of total hard currency oil exports. This reversed a three-year decline in exports to these countries. [redacted] 25X1 25X1

The USSR has been supplying an increasing share of the OECD countries' oil imports in recent years (see table 3). The most important hard currency customers are the Netherlands, West Germany, Italy, France, and Belgium.[3] In 1982-83 these countries purchased about two-thirds of total Soviet hard currency oil exports. [redacted] 25X1

The Soviets were able to increase oil exports in 1982 in part by trimming the delivery of oil to some East European countries. In late 1981 the USSR informed several of its allies that it would reduce oil deliveries

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[2] Finland is a soft currency customer; Turkey purchased oil for soft currency until 1983. [redacted] 25X1
[3] The large volume of oil exported to the Netherlands reflects transshipment of Soviet oil to other countries via the Rotterdam spot market, as well as the Netherlands' imports for domestic consumption. [redacted] 25X1

**Table 2**
**USSR: Estimated Trade in Crude Oil and Oil Products**

*Thousand b/d*

| | 1980 | 1981 | 1982 | 1983 [a] |
|---|---|---|---|---|
| **Gross exports** | **3,273** | **3,224** | **3,389** | **3,590** |
| Hard currency | 969 | 914 | 1,243 | 1,380 |
| OECD [b] | 944 | 881 | 1,171 | 1,308 |
| Austria | 30 | 35 | 28 | 30 |
| Belgium | 85 | 49 | 117 | 114 |
| Denmark | 26 | 18 | 25 | 22 |
| France | 168 | 161 | 140 | 168 |
| West Germany | 138 | 100 | 172 | 211 |
| Greece | 25 | 33 | 46 | 53 |
| Iceland | 7 | 6 | 6 | 7 |
| Ireland | 4 | 4 | 1 | 2 |
| Italy | 138 | 134 | 172 | 177 |
| Japan | 11 | 12 | 12 | 18 |
| Netherlands | 145 | 165 | 252 | 271 |
| Norway | 4 | 10 | 16 | 10 |
| Portugal | 10 | 13 | 4 | 4 |
| Spain | 28 | 26 | 20 | 33 |
| Sweden | 47 | 26 | 48 | 72 |
| Switzerland | 53 | 52 | 50 | 46 |
| Turkey | | | | 7 |
| United Kingdom | 24 | 31 | 61 | 62 |
| United States | 1 | 6 | 1 | 1 |
| LDCs | 25 | 33 | 72 | 72 |
| Ethiopia | 14 | 18 | 17 | 17 |
| Brazil | NEGL | NEGL | 20 | NA |
| Morocco [c] | | | 17 | 15 |
| Others | 11 | 15 | 18 | NA |
| Soft currency | 2,304 | 2,310 | 2,146 | 2,210 |
| Communist | 1,991 | 2,001 | 1,826 | 1,840 |
| CEMA | 1,855 | 1,876 | 1,709 | 1,705 |
| Bulgaria | 300 | 300 | 270 | 270 |
| Czechoslovakia | 384 | 384 | 342 | 342 |
| East Germany | 380 | 381 | 354 | 354 |
| Hungary | 186 | 175 | 162 | 162 |
| Poland | 320 | 320 | 301 | 301 |
| Romania | 30 | 50 | 7 | 4 |
| Cuba | 211 | 215 | 225 | 225 |
| Vietnam | 28 | 35 | 30 | NA |
| Mongolia | 16 | 16 | 18 | NA |

**Table 2**
**USSR: Estimated Trade in Crude Oil and Oil Products (continued)**

*Thousand b/d*

| | 1980 | 1981 | 1982 | 1983 [a] |
|---|---|---|---|---|
| Other | 136 | 125 | 117 | 135 |
| Yugoslavia | 105 | 93 | 88 | 110 |
| North Korea | 20 | 20 | 17 | 15 |
| Afghanistan | 7 | 8 | 9 | NA |
| Laos | 2 | 2 | 1 | NA |
| Kampuchea | 2 | 2 | 2 | NA |
| Non-Communist | 313 | 309 | 320 | 370 |
| Finland [d] | 194 | 198 | 228 | 253 |
| India | 72 | 88 | 84 | 116 |
| Turkey [d] | 30 | 12 | 1 | |
| Morocco [c] | 12 | 9 | | |
| Other | 5 | 2 | 7 | NA |
| **Gross imports** | **78** | **98** | **197** | **255** |
| Hard currency | 78 | 58 | 165 | 200 |
| Iraq | 26 | | 2 | 37 |
| Libya | 40 | 40 | 142 | 121 |
| Saudi Arabia | | | | 20 |
| Venezuela | 12 | 8 | 1 | NA |
| Others | | 10 | 20 | NA |
| Soft currency | | 40 | 32 | 55 |
| Iran | | 40 | 18 | 40 |
| Syria | | | 14 | 15 |
| **Net exports** | **3,195** | **3,126** | **3,192** | **3,335** |
| Hard currency | 891 | 856 | 1,078 | 1,180 |
| Soft currency | 2,304 | 2,270 | 2,114 | 2,155 |

[a] Preliminary.
[b] Excluding Australia, Canada, Luxembourg, and New Zealand, which received no Soviet oil; Finland; and, in 1980-82, Turkey.
[c] Morocco was classified as a hard currency customer in 1982-83 but as a soft currency customer in 1980-81.
[d] Finland and Turkey are OECD countries.

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at concessionary prices beginning in 1982 and probably continuing through 1985. We estimate that annual deliveries to Czechoslovakia, East Germany, and Bulgaria were cut by about 10 percent, or a total of nearly 100,000 b/d. Deliveries to Hungary were reduced about 7 percent, or 13,000 b/d. Shipments to Poland in 1982 were 19,000 b/d less than in the previous year, but the reduction probably was due to below-capacity operation of Poland's industrial plants rather than to a deliberate cut by the Soviets. Because of these reductions, the USSR had an additional 131,000 b/d available for export to hard currency customers in 1982. At an average price of about $32 per barrel, this oil added $1.5 billion to Soviet hard currency earnings.

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**Table 3**
**USSR: Share of Oil Imports by Hard Currency OECD Countries** [a]

*Percent*

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|
| **Total** | **3.1** | **3.5** | **3.2** | **3.5** | **3.5** | **5.2** | **5.9** |
| Crude oil | 2.2 | 2.4 | 2.3 | 2.4 | 2.2 | 3.4 | 4.3 |
| Oil products | 7.7 | 8.6 | 7.4 | 8.3 | 8.4 | 10.9 | 10.7 |

[a] Excludes Finland, as well as Turkey in 1977-82.

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The other major source of the increase in Soviet oil exports in 1982 was Libyan oil accepted by the Soviets as debt repayment. The Soviets arranged for Libya to supply additional crude oil at the rate of about 190,000 b/d from June 1982 through March 1983 in lieu of cash payments for Soviet arms deliveries. Before this arrangement, the Soviets had been lifting about 40,000 b/d of Libyan crude oil annually for reexport to other countries. The amount rose to some 140,000 b/d in 1982. Although some of this oil was delivered to soft currency countries such as Yugoslavia and Finland (for resale), part of it made its way to Western markets.

Apparent domestic consumption (production minus net exports) of oil in the Soviet Union in 1982 was about the same as in 1981. Some oil might have been shifted from domestic consumption for export in 1982. Oil supplies to some enterprises were cut in 1982, but this may have been caused by regional distribution problems rather than by a conscious effort to redirect oil for export. A drawdown of stocks may have provided additional oil for export.

*1983.* The pressure to earn hard currency from oil exports continued in 1983, though it was not as intense as in 1982. Moscow had improved its balance of payments in 1982 and was even able to reduce its net debt by more than $2 billion. Also, a better harvest in 1982 reduced requirements for imported grain. Nevertheless, the USSR needed to increase oil exports for hard currency to compensate for lower oil prices and to maintain imports at about the same level as in 1982 without increasing its net indebtedness.

The USSR increased oil exports to hard currency customers in 1983 to an estimated 1.38 million b/d, up 11 percent from 1982. Deliveries to OECD countries rose 11.7 percent to 1.31 million b/d. Hard currency earnings from sales to OECD customers amounted to about $14.2 billion. Assuming that the volume of oil exported to non-OECD hard currency customers was the same as in 1982, total hard currency revenues from oil sales probably were about $15 billion. 25X1

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In early 1983 the Soviets were faced with an unstable oil market and falling prices. In February, the North Sea oil producers, Nigeria, and the USSR lowered their prices (see table 4). Following the lead of these producers, OPEC—in an unprecedented move—slashed the price of its benchmark grade of Saudi Arabian light crude from $34 to $29 per barrel in March. 25X1

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Moscow's numerous appeals in February and March 1983 to OPEC to close ranks and halt plummeting oil prices reflected its concern over the threat to the Soviet hard currency position of a possible price war within OPEC. In March the price of Soviet crude had fallen to $28 per barrel, a $4 drop from its 1982 average price. Because each dollar of decline in the oil price costs Moscow nearly $455 million in revenues on an annual basis (assuming 1.24 million b/d of hard

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**Table 4**
**USSR: Crude Oil Sales Prices in 1983**

*US $ per barrel*

| Effective Date | Price [a] |
|---|---|
| 1 January | 31.50 |
| 1 February | 29.25 |
| 1 March | 28.00 |
| 1 May | 28.50 |
| 1 July | 29.00 |
| 15 August | 29.50 |
| 15 November | 29.00 |
| 1 December | 28.50 |

[a] Prices are originally set in long-term contracts, generally of one year, but frequently are adjusted to meet current market conditions. The prices shown exclude sales in the spot market.

currency oil exports), the Soviets faced a nearly $2 billion loss in foreign exchange earnings if their price remained at $28 per barrel and the volume remained the same as in 1982.

OPEC, in turn, was concerned that aggressive Soviet pricing and increased exports to the West were undermining the cartel's ability to stabilize prices. The Soviet crude oil price of $28 per barrel delivered to Western Europe was described by a Western oil journal as being about $1.50 per barrel below the new $29 OPEC price for benchmark crude oil after adjustment for freight and quality differentials. Although destabilization of OPEC prices would not, as noted above, be in the Soviets' interest, Moscow was probably cutting its price to maintain hard currency earnings from oil in a soft world market

To solicit cooperation from major non-OPEC producers in preventing further deterioration of the world oil market, Algerian Oil Minister Nabi, representing members of OPEC, met with Soviet officials in June 1983 to consult on oil prices. This was the first formal contact between OPEC and the USSR. The Soviets informed Nabi that they would not increase exports to the West and shortly thereafter announced an increase in their crude oil price to $29.

Responding to a sagging oil market and the need to maintain hard currency earnings, Moscow again lowered its oil price twice late in the year (table 4). These cuts were small; they allowed Moscow to test the market, and its restraint implied concern for the overall pricing structure of crude oil. The Soviets may have been interested in expanding their share of the market early in the winter rather than later, when world prices might have softened. 25X1

For 1983 as a whole, the price of Soviet crude oil averaged $29 per barrel, $3 below the 1982 average. Taking into account transportation costs, Soviet oil sold below the OPEC benchmark price throughout the year. Prices for oil products in Western Europe also declined. Average product prices fell 10 percent from $34.60 per barrel in 1982 to $31.10. 25X1

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The Soviets also boosted their hard currency oil exports in 1983 by reexporting oil supplied by other countries. OPEC oil exports to the USSR were even larger than in 1982. We estimate that the USSR reexported about 233,000 b/d of Libyan, Iranian, Iraqi, Saudi Arabian, and Syrian oil in 1983, some 55,000 b/d more than during 1982. About three-fourths of the reexported oil went to hard currency countries, and the reexport of oil to soft currency countries probably freed additional Soviet oil for export to hard currency countries. Thus, liftings of reexported oil constituted about one-sixth of total Soviet oil exports to hard currency countries. As in 1982 the OPEC shipments were in lieu of payments for earlier deliveries of Soviet arms and equipment that some of the oil-producing countries would otherwise have found difficult to make. 25X1

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Libyan deliveries averaged about 121,000 b/d during 1983. 25X1 25X1 25X1

In June, however, the Soviets obtained a continuation of the barter, although at a lower rate (75,000 b/d) than in 1982. 25X1

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Moscow may have pressed the Libyans for the extension because it needed additional oil to meet contracts. Several clients complained in May and June 1983 that the USSR was not fulfilling its oil delivery contracts. At the same time, a request by Brazil for increased oil shipments in July was refused because the Soviets claimed that they were sold out. 25X1

In addition to Libyan oil, we estimate that the USSR received about 37,000 b/d of Iraqi crude oil in 1983 (up from a negligible amount in 1982) and about 40,000 b/d of Iranian crude, more than twice the quantity lifted during 1982. The Soviets also reexported some Saudi Arabian oil for the first time in 1983. In May the USSR and Iraq agreed to cover Iraqi military debts to the Soviet Union through 1983 with deliveries of $1.2 billion worth of Saudi Arabian oil. These deliveries reflect Saudi Arabia's support for Baghdad in the Iran-Iraq war. If the Soviets had received the entire amount in 1983, shipments would have averaged 120,000 b/d, but preliminary Soviet trade data indicate that supplies were averaging only about 20,000 b/d.

We believe that diversions of oil from Eastern Europe did not substantially contribute to the increase in Soviet oil exports for hard currency in 1983. We estimate that oil was exported to Eastern Europe at or only slightly below the 1982 rate. Further reductions as large as those of 1982 probably would have resulted in a public outcry of the sort that followed the cutbacks in 1982 in East Germany.

Soviet oil production in 1983 increased by only about 70,000 b/d, less than 1 percent above the 1982 level. Some domestic supplies may have been shifted from industrial uses to export in early 1983, when mild weather reduced oil demand. It would have been difficult, however, for the Soviets to shift much oil from the domestic economy, in view of the 3.5-percent increase in industrial output in 1983.[4]

The situation in the Soviet electric power industry in 1983 makes it unlikely much oil was saved through substitution of other fuels. With coal production in 1983 down 2 million metric tons from 1982, some power plants that normally use coal probably were burning oil, the most common backup fuel. Furthermore, the above-plan increase in electric power in 1983 came from thermal plants, some of which are fired by oil. 25X1

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***Selling Oil for Soft Currency***

*The Soviet Union trades with soft currency countries through bilateral clearing accounts. Under a type of barter system, sales of individual commodities are stipulated in agreements planned to balance overall trade. Soft currency countries except Finland and Romania generally pay for Soviet oil in commodities that are not readily salable for hard currency. Oil is bartered to CEMA countries under a formula that sets the price for each year's transactions at the average world market price of the previous five years.* 25X1

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**Soft Currency Sales**

***Communist Countries.*** In 1982, because the average OPEC price had risen to more than two and a half times its 1978 level, the CEMA five-year average price was well below the world market price (see table 5).[5] Thus, the CEMA countries received Soviet oil at very attractive concessionary prices. In 1982 these countries paid the USSR an average of $22 per barrel for oil, only two-thirds of the world market price. 25X1
With the recent decline in world oil prices, the five-year average has come closer to the current world market price. As a result, the implicit subsidy in the CEMA price dropped from an annual average of $12 billion in 1980-81 to about $7 billion in 1982. If the five-year average price formula continues and there are no major price changes, Eastern Europe will be paying above world prices for Soviet oil in 1984. 25X1

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[4] Because the increase in production and imports does not account for all of the increase in exports, a drawdown of stocks may have been necessary to provide additional oil for export.

[5] The German Institute for Economic Research claims that in 1980 CEMA began calculating prices on a three-year sliding scale, but Soviet and East European trade data indicate that the five-year moving average is still in use, and a Soviet Embassy official in February 1984 stated that the three-year moving average is merely under study for 1986. 25X1

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**Table 5**
**USSR: Estimated Price of Oil Sold to Eastern Europe** [a]

*US $ per barrel*

| Year | World Price | Eastern Europe | |
|---|---|---|---|
| | | Average World Price for Previous Five Years | Implicit Price Subsidy |
| 1975 | 11.05 | 5.69 | 5.36 |
| 1976 | 11.77 | 6.08 | 5.69 |
| 1977 | 13.00 | 7.98 | 5.02 |
| 1978 | 13.00 | 10.07 | 2.93 |
| 1979 | 18.54 | 11.98 | 6.56 |
| 1980 | 31.67 | 13.47 | 18.20 |
| 1981 | 35.01 | 17.60 | 17.41 |
| 1982 | 33.75 | 22.24 | 11.51 |
| 1983 | 29.49 | 26.39 | 3.10 |

[a] Prices based on 90-10 mix of crude oil and oil products delivered to Eastern Europe.

Although payment for most of the Soviet oil exported to Eastern Europe does not require hard currency, oil exported to Romania is paid for in hard currency or "hard goods"—commodities that can be sold in Western markets. Part of the oil delivered to Hungary also is reimbursed with "hard goods," and some has been paid for in hard currency.

The availability of Soviet oil at concessionary prices has made Eastern Europe heavily dependent on the USSR for supplies. Excluding Romania, the region depends on Soviet deliveries for 90 percent of its crude oil imports and 85 percent of its total oil requirements. After years of supplying Eastern Europe with rising amounts of oil (which peaked at 1.6 million b/d in 1980-81), the USSR set back its client states' expectations of continued support by announcing cutbacks in 1982 deliveries.

Cuba, the largest non-European Communist importer of Soviet oil, has received annual deliveries of about 220,000 b/d in recent years. Oil products account for more than 40 percent of these imports. The Soviets tried to get Cuba to hold constant or reduce the level of oil imported in 1982 by offering them hard currency for the amount saved. According to official CEMA data, however, total Cuban imports of oil (virtually all of which are from the USSR) increased 6 percent in 1982.[6] Some of this oil is shipped from Venezuela on Soviet account under a quadrilateral swap agreement. In return, Moscow supplies oil to one of Venezuela's West European customers. This agreement has been proceeding shipment by shipment since the 1980 expiration of the formal protocol. One shipment was observed in early 1982. After a lapse in late 1982, shipments under this arrangement were resumed in August 1983. 25X1

The USSR provides oil to Yugoslavia under bilateral trade agreements but at world prices. In 1983 the deliveries were increased by about 25 percent, accounting for two-fifths of Yugoslavia's oil consumption. The increase may have reflected Moscow's concern for balancing increased Western assistance to Belgrade. 25X1 25X1

***Non-Communist Countries.*** Soviet exports of oil to non-Communist soft currency customers are close to or at world prices. The most important customers are Finland and India. 25X1

In 1982 the Soviets supplied nearly 230,000 b/d of oil and oil products to Finland, four-fifths of Finnish oil consumption. To reduce the Finnish bilateral trade surplus, the Soviets agreed to supply an additional 20,000 b/d of Libyan crude oil for resale in late 1982 and increased this to 26,000 b/d in 1983. By correcting the trade imbalance, the Soviets avoided risking a cutback in imports of high-quality Finnish products. 25X1 25X1

The Soviets have a long-term agreement to supply India with 95,000 b/d during 1981-85 and have agreed to supply an additional 20,000 b/d annually in 1983 and 1984 to reduce the Indian bilateral trade 25X1

[6] Cuban data indicate that in 1982 Havana received more than $200 million in hard currency from Moscow for oil supplied but not consumed domestically. This oil was reexported. 25X1

surplus. The Soviets have historically supplied India with crude oil from Iran and Iraq. In 1983 some of the oil for India came from Saudi Arabia under the Iraqi debt payment arrangement with the Soviets.

**Outlook**

In view of the slow progress in retarding domestic demand for oil and the likelihood of a downturn in oil production later in the decade, some decline in Soviet oil exports seems likely. The Soviets probably will strive to sustain their hard currency oil exports but will find it increasingly difficult to maintain the present level because total demand probably will outstrip domestic oil supply.[7]

Moscow will have to make some difficult choices in the allocation of oil among hard currency countries, Eastern Europe, other soft currency customers, and domestic consumption. Although further reductions in oil deliveries to Eastern Europe could free oil for hard currency markets, the Soviets would have to weigh the economic impact on these countries against hard currency gains. Further cutbacks in oil supplies could impair Eastern Europe's emerging economic recovery. The East Europeans have already cut hard currency oil imports for domestic use, and their inability to earn larger amounts of hard currency will limit purchases on the world market despite reduced prices. The Soviets probably are unwilling to risk the economic and political repercussions from further abrupt, sizable cuts, but they might consider small cuts spread over several years.

a statement in a recent Soviet journal that exports of certain types of fuel and raw material to CEMA members will be limited as part of an overall energy conservation program.

The Soviets could attempt to maintain hard currency earnings by reexports of OPEC oil. As long as the oil market remains soft, bartered OPEC crude oil probably will be available for resale. The barter enables the debtor countries to meet their financial obligations through deliveries of oil that they would otherwise find difficult to sell. Bartering the oil to the Soviets guarantees the OPEC countries a market at a contracted price during a period of declining world demand. Having established customers, the USSR will want to maintain these additional supplies both to earn hard currency and to protect its reputation as a reliable supplier. The Soviets also can use the oil to help balance bilateral clearing accounts. 25X1 25X1

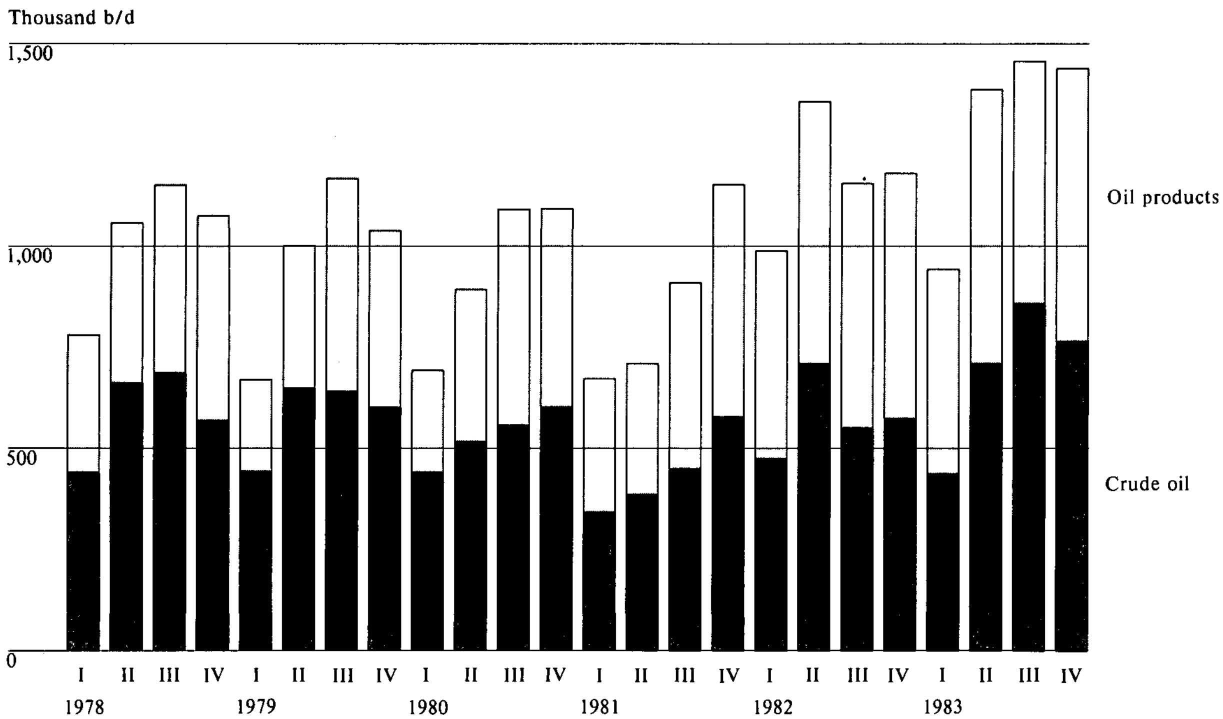
In the long term, however, as world oil demand strengthens, Moscow cannot rely on OPEC oil because the producing countries, by eliminating middleman fees, could obtain better trade terms by selling their oil in world markets and paying the Soviets cash to discharge debts resulting from earlier arms purchases. Also the OPEC countries would not risk being undercut in the market by Soviet sales of OPEC oil, as noted earlier. 25X1 25X1

Any substantial diversion of oil from domestic use would affect the performance of the Soviet economy. Domestic demand for oil will continue to grow for some time, and the substitution of alternative fuels will be slow. The Soviets have not given energy conservation the priority needed to hold down domestic demand for fuels. Agriculture and heavy transport are not set up to use other fuels, and the need to develop an extensive gas distribution network will limit the pace of substituting natural gas for oil in industrial and residential uses. The investment required to convert some industries to alternative fuels also will limit the rate of conversion. 25X1 25X1

Cutbacks in deliveries to soft currency customers outside Eastern Europe would provide additional oil for the USSR to divert to the hard currency market. As with the East European countries, the benefits from cutbacks to other Communist clients would have to be balanced against potential economic and political costs. Soviet pressure on Cuba to reduce oil imports will continue, but any substantial reduction in Soviet oil deliveries to Cuba is unlikely. Havana is facing its worst economic outlook in years, with revenues from sugar sales to the West plunging and hard currency availability seriously constrained. We believe deliveries to North Korea are already lower 25X1 25X1 25X1

[7] As noted earlier, Moscow has already had to rely on reexports to help meet its domestic and foreign demand for oil. 25X1

**USSR: Oil Exports to OECD Hard Currency Countries**

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than the 20,000 b/d stipulated in the 1981-85 bilateral commercial protocol. Other Communist less developed countries (LDCs) receiving subsidized oil, such as Vietnam, also have severe economic problems, and the Soviets probably see little net benefit in cutting these already small deliveries.

In considering the possible reduction of oil deliveries to soft currency customers such as Finland, India, and the non-Communist LDCs, Moscow would have to weigh the effect on its foreign policy goals. Finland and India would be especially vulnerable to reduced sales, because they rely on the USSR for a large share of their oil imports. Although they could become targets for marginal cuts, sizable reductions would exacerbate Moscow's balance-of-trade surplus with these countries and, in the case of Finland, would restrict Soviet imports of high-quality goods. Nevertheless, cutbacks to these countries would be easier to handle than the problems that would arise from reductions to Eastern Europe. 25X1

25X1

If the Soviets could increase the share of oil products in total oil deliveries to hard currency customers, they could increase revenues without increasing the volume of oil and oil products sold.[8] The share of oil products in total Soviet oil deliveries to OECD countries for hard currency has increased from 42 percent in 1978 to 48 percent in 1983 (see figure 1). Gasoline and

[8] Heavy fuel oil is the principal product that the Soviets have available for sale, but demand in the West for this product has declined. The Soviet position in the product market was further worsened in the summer of 1983 by the sale of fuel oil that was below specifications, seriously damaging buyers' confidence. 25X1

diesel fuel are in demand in Western Europe, but the Soviets do not have enough secondary refining capacity, especially cracking equipment, to provide large quantities of these products. Nonetheless, the higher world market price for oil products compared with crude oil, together with the growing Soviet domestic demand for light and middle products, could provide the impetus for increased investment in secondary refining equipment in the long run.[9] 25X1

[9] With stable or declining oil production, the USSR would need more secondary refining equipment to obtain maximum output of light and middle products from each barrel of oil. 25X1